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FAX

MAY 13, 86

TO : JUDY DAVIES, WEST CHESTER (CONF. ROOM)
: TOM MATSON, -"-
: JEFF HERMAN, -"-
CC : DON GREENBAUM, -"-
CC : HARALD SPEYER, FRANKFURT E.H.Q.
FROM: PETER ZIMMERMANN, FPT., E.H.Q.

RE : REV. Q4 / FISC. 86 PRE TAX EUROPE – REV. TRANSFER PRICES, ROYALTY CHARGES

ATTACHED PLEASE FIND VARIOUS WORKSHEETS REGARDING ABOVE SUBJECT.
PAGE 5 SHOWS THE TODAY'S VERSION OF Q4/86 SALES FOR EUROPE (CONS'D) ON LATEST HK - INFO OF AVAILABLE QUANTITIES. A BREAK DOWN BY COUNTRY FOR EUROPE IS NOT AVAILABLE TODAY BUT, MOST PROBABLY, TOMORROW.

THE 'PROPOSED' EUROPEAN PRE TAX REDUCTION SHEET SHOWS SUFFICIENT REDUCTIONS FOR THE "SO CALLED" PROFITABLE COUNTRIES DUE TO HIGHER - IF NECESSARY, RETROACTIVE - TRANSFER PRICES (I.E. DENMARK, SWITZERLAND AND SWEDEN; NOT NECESSARY FOR NORWAY,

FOR GERMANY, AUSTRIA AND NORWAY A CHANGE IN TRANFER PRICES FOR Q4 WILL HAVE THE PROPOSED EFFECT ALREADY. ONLY IN CASE OF NETHERLAND A SIX-MONTH CHANGE COULD BE NECESSARY TO REDUCE THEIR PRE TAX SUBSTANTIALLY.

TALKING ABOUT TRANSFER PRICE CHANGES HARALD SPEYER IS OF THE OPINION TO INCREASE EVEN THE USA INC. PRICES FOR Q4/86 UPTO THE SAME HIGH LEVEL VALID FOR EUROPE. IN THIS PARTICULAR CASE CEL CAN NEGOTIATE SOME MARKETING SUPPORT CREDITS ETC. TO SET OFF THIS NEGATIVE <LOSS> EFFECT.

SOME EUROPEAN GM'S AND CONTROLLERS INFORMED ME ABOUT THEIR CONCERN TO INCREASE TRANSFER PRICES BACKWARDS. PLEASE CONSIDER IN YOUR THOUGHTS THAT IN MOST OF THE EUROPEAN COUNTRIES WE'RE RUNNING INTO HIDDEN PROFIT DISTRIBUTION RISKS IF WE CHANGE (INCREASE) PRICES BACKWARDS.

HAVE GOT DETAILED INFORMATION FROM DENMARK's GM, CHRISTIAN ANDERSEN, THAT A TRANSFER PRICE INCREASE BACKWARDS TO Q1-3/FY86 WOULD BE ILLEGAL DUE TO LEGAL LAW. EVEN A CHANGE FOR THE ACCOUNTING MONTH OF APRIL COULD BE RISKY. INSOFAR, YOU SHOULD EVALUATE, IF NECESSARY WITH CHRISTIAN BY PHONE, WHAT KIND OF RISK YOU CAN JUSTIFY TODAY.

THIS SITUATION COULD BE -SIMILAR- IN ALL THE OTHER COUNTRIES.

IN THE 'SO-CALLED' PROFITABLE COUNTRIES IT SHOULD BE INVESTIGATED, WHETHER A DIVIDEND MAKES SENSE. I ASSUME THERE WILL BE ONLY MINOR TAX SAVINGS IF DIVIDENDS WOULD BE PAID. IN CASE OF DENMARK THERE WOULD BE A INCOME TAX REDUCTION FROM 50% TO 30% CORP. INCOME TAX, NOT CONSIDERED THE DIVIDEND WITHHOLDING TAX.

PLEASE NOTE, WHATEVER YOU WILL DECIDE, THAT THE LOCAL BANKS IN THE EUROPEAN

WHAT THE 9 MONTH PRE TAX IS IN EACH LOCAL COMPANY. THAT IS A FURTHER - STRONG - COUNTERARGUMENT AGAINST A RETROACTIVE CHANGE OF PRICES AND PROFITS.

IF THERE WOULD BE ANY OTHER POSSIBILITY TO INVESTIGATE IN CORP. H.Q. OR USA INC. THIS SHOULD BE DONE FIRST.

SOME OF MY EXPLAINATIONS AFFECT THE PROPOSED ROYALTY CHARGES TO THE LOCAL COMPANIES, TOO.

ANYWAY, IT'S UP TO YOU TO DECIDE ON BASIS OF EXISTING REQUIREMENTS WHAT TO DO.
BUT, PLEASE BE AWARE, THAT THERE ARE A LOT OF LEGAL OBJECTIONS, TAX RISKS AND MANAGERS' CONCERNS ABOUT THESE FACTS I'M TALKING TO.

MY SUGGESTION IS, TO STRESS - AS FAR AS YOU FEEL - THE CURRENT Q4 IN ORDER TO AVOID MAJOR PROBLEMS FOR YOU AND ALL OUR COMPANIES.

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Europa, Frankfurt May, 13th, 1986

Sales Forecast by Product	Min.trade price, $	Q4 QTY SUM	Sales Q4 Sum
	185.00		
C64	178.00	132750	23939
C128	209.00	24300	5079
C128D	419.00	40500	16970
Cons. CPUs		197550	45987
1541	178.00	61830	11006
1570	159.00	25600	4070
1571	199.00	26100	5194
Cons. Drives		113530	20270
MPS 803	119.00	6200	738
MPS 1000	244.00	10950	2672
Cons. Printers		17150	3410
1702/1801	156.00	4925	768
1901	239.00	18750	4481
Cons. Monitors		23675	5250
1530/31	18.00	134750	2426
Joysticks	4.00	5500	22
C128 Mouse	43.00	3900	168
C128 RAM EXP.1700	0.00	200	0
C128 RAM EXP.1750	0.00	210	0
S/W & OTHER	0.00	0	0
Cons. Access.		144560	2615
C16/C116+1531	45.00	54000	2430
C64+1541	354.00	41750	14780
Cons. Bundles		95750	17210
Cons. TOTAL		592215	94741
Amiga	1005.00	20000	20100
Amiga Mon.	90.00	5540	499
3,5" Drive	199.00	5515	1097
5,25" Drive	236.00	1745	412
256 KB RAM	100.00	1945	195
Modem 1680	0.00	40	0
Amiga total		34785	22302
8296D	912.00	55	50
PRINTERS	478.00	160	76
PC10 II	1000.00	9000	9000
PC20 II	1500.00	9000	13500
256 KB RAM	80.00	560	45
128 KB RAM	41.00	320	13
OTHER	0.00	0	0
Business Systems		19095	22685
Business Sys.+ Amiga		53880	44987
TOTAL		646095	139728

Revised Sales Forecast, changed quantities depend on revised build plan, HK.

Best regards,

Christine

PRE TAX PROFIT REDUCTION (-LOSS INCR.) EUROPE 1)

		Q4	Q3	2ND HALF	Q2	Q1	FY 86	EST FY86 - PRE TAX 3)	REMAINING VARIANCE
AUSTRIA		693	244	937	-	-	937	800	-
BELGIUM	2								
DENMARK		510	617	1,127	463	123	1,713	3,100	1,387
FRANCE	2								
GERMANY		6,382 5)	3,074 5)	9,456 5)	-	-	9,456	5,000 5)	-
ITALY	2								
NETHERLD.		344	456	800	-	-	800	700	-
NORWAY		126	162 4)	288 4)	269 4)	72 4)	629 4)	700	71 4)
SWEDEN		561	285	846	491	160	1,497	1,800	303
SWITZERLD.		523	326	849	178	26	1,053	1,400	347
UK	2								
		9,139	5,164	14,303	1,401	381	16,085	—	—

1) DUE TO HIGHER TRANSFER PRICES EFFECTIVE APRIL 1, 86 (OR EARLIER) → SEE JEFF HERMAN'S CALCULATION
2) ALL AMOUNTS IN 000 USD
3) CALC. UNDER OLD (LOW) TRANSFER PRICES
4) NORWAY HAS SUFFICIANT LOSS CARRY FOR WARDS, NO RETROACT. PRICE INCR. NECESSARY
5) GERMANY'S PROFIT SITUATION DEPENDS ALSO TO DEERFIELD WRITE OFFS (PLS. DISCUSS WITH TOM MAISON)

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MAY.13 '86 18:37 COMMODORE GMBH FFM 69/6638159

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PROPOSED

TOTAL ROYALTY - CHARGE FOR Q1-3/86 +)

(IN USD)

GERMANY	814,077
DENMARK	123,213
SWITZERLAND	106,818
NETHERLAND	135,252
NORWAY	90,420
AUSTRIA	50,061
SWEDEN	48,516
PROFITABLE COUNTRIES	1,368,357
UK	
ITALY	
FRANCE	
BELGIUM	
TOTAL EUROPE	

+)

x) JEFF, PLEASE CALC. THE REMAINING AMOUNTS ON BASIS OF VOLUMES YOU HAVE FOR THESE COUNTRIES.

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PROPOSAL

ROYALTIES PAID BY CEL IN Q1-3/FY86

	PC 10 [1]	PC 20/30 [2]	128/-D [3]
1. GERMANY			
IN UNITS	10,538	3,885	84,357 (S)[5]
ROY. P. UNIT: [4]			
$ 10 : MICROSOFT	100,538	38,850	–
$ 26 : COMTERM	273,988	–	–
$ 38 : COMTERM	–	147,630	–
$ 3 : CPM/DEC.	–	–	253,071
	374,526	186,480	253,071
		↳	186,480
	↳		374,526
			814,077
2. DENMARK			
IN UNITS	1,494	941	8,087 (P)[5]
ROY. P. UNIT [4]			
$ 10 MIRROS.	14,940	9,410	–
$ 26 COMT.	38,844	–	–
$ 38 COMT.	–	35,758	
$ 3 CPM/DEC.	–	–	24,261
	53,784	45,168	24,261
		↳	45 168
	↳		53 784

ROYALTIES PAID BY CEL IN Q1-3/FY 86

	1) PC 10 ~	2) PC 20/30	3) 128/-D	
NORWAY				
IN UNITS	1,238	775	2 884	(P) 5)
ROY. P. UNIT: 4)				
$ 10: M.S.	12,380	7,750	-	
$ 26: CT.	32,188	-	-	
$ 38: CT	-	29,450	-	
$ 3: CPM	-	-	8,652	
	44,568	37,200	8,652	
	↳	↳	37,200	
			44,568	
			90,420	
AUSTRIA				
IN UNITS				(S) 5)
ROY. P. UNIT: 4)	355	380	6,347	
$: M.S.	3,550	3,800	-	
$ 26: C.T.	9,230	-	-	
$ 38: C.T.	-	14,440	-	
$ 3: CPM	-	-	19,041	
	12,780	18,240	19.041	
	↳	↳	18 240	
			12 780	

ROYALTIES PAID BY CEL IN Q1-3 / FY 86

	1) PC 10 ~	2) PC 20/30	3) 128/-D	
SWITZERLAND				
IN UNITS	1,243	716	9,234	(5) 5)
ROY. P. UNIT: 4)				
$ 10: M.S.	12,430	7,160	–	
$ 26: CT.	32,318	–	–	
$ 38: CT	–	27,208	–	
$ 3: CPM	–	–	27,702	
	44,748	34,368	27,702	
		↳	34 368	
	↳		44,748	
			106,818	
NETHERLANDS				
IN UNITS	1,958	873	7.620	(5) 5)
ROY. P. UNIT: 4)				
$: M.S.	19,580	8,730	–	
$ 26: C.T.	50,908	–	–	
$ 38: C.T.	–	33,174	–	
$ 3: CPM	–	–	22,860	
	70,488	41,904	22,860	
			41,904	
			70,488	

ROYALTIES PAID BY CEL IN Q1-3/FY 86

SWEDEN

IN UNITS

	1) PC 10 ~	2) PC 20/30	3) 128/-D	
ROY. P. UNIT: 4)	624	395	2,364	(5)
$ 10: M.S.	6,240	3,950	–	
$ 26: CT.	16,224	–	–	
$ 38: CT	–	15,010	–	
$ 3: CPM	–	–	7,092	
	22,464	18,960	7,092	
	↳	↳	18,960	
			22,464	
			48,516	

IN UNITS

ROY. P. UNIT: 4)

$: M.S.

$ 26 : C.T.

$ 38 : C.T.

$ 3 : CPM

REMARKS:

1) INCL. ALL PC 10 VERSIONS
2) INCL. ALL PC 20 VERSIONS ("PC 30" WAS INTERNALLY USED ONLY)
3) INCL. 128 STAND ALONE VERSION AND 128 D
4) ASSUMED, THAT ROYALTIES HAVE TO BE PAID FOR EACH SOLD PRODUCT
5) FROM (S) SALES REPORT OR (P) FINANCIAL PACKAGE

ATTACHMENT

RE: DENMARK

FOR TAX PURPOSES ONLY THE COMPANY HAS THE POSSIBILITY TO BOOK A ONE-YEAR RESERVE OF 30% OF THE INVENTORY VALUE AS OF JUNE 30, 86.

THIS WILL BE DONE, BUT, FOR FISCAL 1985 THE RESERVE, WHICH WAS APPROX 10 MILL DKR (1.1 MILL USD) HAS TO BE RELEASED THIS FISCAL.

INSOFAR, THAT COULD BE A WASH, IF INVENTORIES ARE AVAILABLE AT SAME LEVEL.

WILL INVESTIGATE, WHETHER FURTHER TAX SAVINGS ARE POSSIBLE WITH DENMARK. SOLUTION NOT BEFORE JUNE 86.

CONFIDENTIAL

ATTACHMENT

IF YOU'D LIKE TO TALK TO CHRISTIAN ANDERSEN (GM-DENMARK) TONIGHT YOU'LL FIND THE PRIV TE PHONE NUMBER WHERE YOU CAN REACH HIM UNTIL 7 P.M.

DENMARK : 45 - 6 95 05 05

AFTER 7.30 P.M.

DENMARK : 45 - 6 95 03 78

PLEASE CONTACT HIM IF YOU FEEL IT IS NECESSARY.

Peter

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